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THE NEW AMERICA

CREDO TECHNOLOGY GROUP *San Jose, California*

Networker Emerges As Key Player In Artificial Intelligence

BY JUAN CARLOS ARANCIBIA
INVESTOR'S BUSINESS DAILY

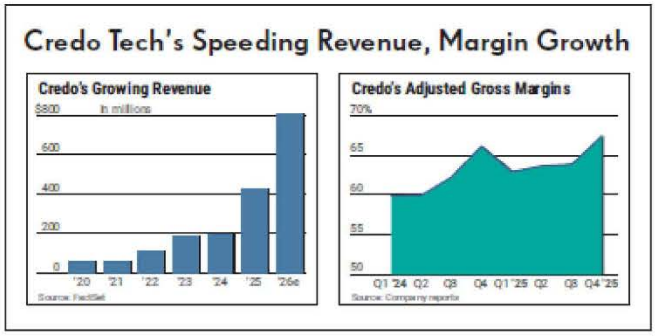
While chips and servers get most of the attention in data centers, the mesh of cables that connect all that equipment is just as vital. And that's where Credo Technology Group Holding (CRDO) has emerged as a key player, pushing Credo stock higher.

Just like every other piece of hardware in data centers, high-speed connectors are complex designs that can deliver data at 200 and 400 gigabits per second or even faster. Microchips can function only as fast as their connectors will let them, so the race is on to develop connectors that test the limits of technology.

Credo's business goes far beyond wires. The company makes entire systems that can include chips based on its technology, plus the hardware and software to create a comprehensive package. Its products are for both sturdier copper connections and optical connections, which are typically used for longer distances and can send data much faster. But they're more fragile than copper.

One of its most recent innovations is Predictive Integrity Link Optimization and Telemetry (PILOT), which monitors connections and can alert operators about flaws before connections fail. The troubleshooter acts as the "check engine" light, says Chief Executive Officer Bill Brennan.

Credo Technology has played an important role in AI as a provider of networking systems that enable the high speed transmission of data.



Landmark Moment

With the explosion of artificial intelligence, Credo finds itself at a landmark moment in history. Brennan calls it an inflection point comparable to the invention of the personal computer, cellphones and the internet.

"I think that AI might be the most transformational application and inflection point that we are living through up to this point," he told Investor's Business Daily.

Credo Technology Group
credosemi.com

Ticker	CRDO
Share price*	Near 73
12-month sales	$436.7 mil
EPS growth rate	n.a.

IBD SmartSelect Corporate Ratings*

Composite Rating	99
Earnings Per Share	80
Relative Price Strength	97
Industry Group Rank	51
Rank Within Industry Group	1
Sales+Profit Margins+ROE	A
Accumulation/Distribution	A-

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Because AI applications such as ChatGPT require massive amounts of computing power, more and larger data centers are needed to handle exploding workloads. Leading data center players plan to spend $1.8 trillion from 2024 to 2030 to meet demand, according to Boston Consulting Group.

That leaves Credo with a durable runway, and one reinforced with competitive advantages.

For one, the company is the leader in SerDes, short for serializer/deserializer, which is how data gets onto the wires and off the wires. "Our SerDes capability is best-in-class globally," Brennan said.

The CEO and several analysts say Credo also has advantages in terms of cost and power consumption.

High-speed connectivity is a market with high barriers to entry. A research note from TD

Amphenol Exhibit 1061
Amphenol v. Credo
IPR2025-00699

Cowen says Credo's competitors include Marvell Technology (MRVL), Inphi, Macom (MTSI), Texas Instruments (TI) and Cavium.

"It's very difficult to compete with us," Brennan said at a Mizuho conference on Tuesday. On Wednesday, Mizuho analyst Vijay Rakesh reiterated an outperform rating with an 81 price target.

Customer Risk

Being in a niche industry can have its drawbacks, however.

Few companies build data centers, which means Credo relies on just a handful of customers, leaving most of its eggs in one basket. That's not necessarily a problem when a couple of those are ostrich eggs, namely Amazon.com (AMZN) and Microsoft (MSFT), which have massive data-center expansion plans.

Although Credo does not break out sales for each customer, analysts believe Amazon, which owns the mammoth Amazon Web Services, is the largest customer. It accounted for 61% of sales in the most recent quarter.

"Credo ... presents an attractive opportunity in the high-performance data center connectivity market, specifically targeting the critical transition to higher-speed interconnects driven by AI and cloud computing infrastructure," Susquehanna analyst Christopher Rolland wrote in a June 3 note to clients.

Besides the AI boom, Credo has undergone a transformation of its own making: It's been moving from licensing its intellectual property to more of a product supplier.

When he joined the company about 12 years ago, Brennan saw that its technology was difficult to achieve and valuable for the industry, so it started licensing it. That brought in funding that helped the company grow. It also helped the company perfect its technology and build the brand.

"So everybody knew by the time we brought products to market that Credo was a very well-respected company in the high-speed connectivity space," Brennan added.

Today, licensing accounts for less than 5% of total revenue at Credo, whose North American headquarters are in San Jose, Calif.

Earnings Growth Surges

While analysts are guarded about Credo's small number of customers, they saw the customer base broadening after the company's June 2 earnings report. They also underscored a quicker ramp-up with some hyperscale customers.

The fiscal fourth quarter marked the second straight period in which Credo beat even the most optimistic analyst sales and profit estimates. Earnings per share jumped 400% to 35 cents a share on an adjusted basis.

Sales growth has been in an accelerating trend, from a decline of 2% in the fiscal third quarter ended in January 2024 to gains of 89%, 70%, 64%, 154% and 180%. That's well above the company's three-year sales growth rate of 38%.

The sales outlook is even more impressive: Analysts expect current-quarter sales to grow 218% and 174%, 53% and 26% in subsequent quarters, according to FactSet.

Current quarter earnings are expected to surge 775% to 35 cents a share. For the full fiscal year ending next April, the consensus earnings estimate is $1.50 a share, a vault of 114%.

The company is not sounding very concerned about tariffs, even though most of its manufacturing is overseas. Brennan told IBD that Credo's geographic footprint is diversified, and he feels confident that the company will be able to manage the risk successfully.

Credo's Top Rating

With its growth surging, Credo Tech now has an IBD Composite Rating of 99, the highest possible and the highest among 13 companies in IBD's internet networking industry group.

Credo stock isn't immune to AI-related risks, though. For example, shares plummeted 31% on Jan. 27, after reports said China's DeepSeek startup performs comparably with OpenAI and other AI systems but at a much lower cost. The news rattled all AI-related stocks. It was the stock's worst day since Feb. 15, 2023, when it slid 46.8%, according to Dow Jones Market Data.

Credo stock is up about 5% year to date, after recovering most of a 66% decline from Jan. 22 to its April 7 low at 29.09. Shares have more than doubled since that bottom and are forming a cup-with-handle base with a potential buy point at 80.99, according to IBD MarketSurge pattern recognition.

Credo went public in January 2022 at $10 per share.

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